

## **OUTLOOK FOR LIVESTOCK AND POULTRY**

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Last year was marked by differing changes in the fortunes of the various components of the livestock and poultry sector. Although the cow-calf sector began 2006 with a relatively high portion of pasture and range rated poor or very-poor, producers hoped to expand herds. On January 1, 2006, cattle producers indicated they held about 4 percent more heifers for addition to the beef cow herd. Feeder cattle prices averaged a record \$106.80 per cwt in the first quarter and fueled by strong demand from cattle feeders, third quarter feeder calf prices averaged \$115.17 per cwt. However, by mid-2006, drought conditions had worsened, with over 50 percent of the Nation's pasture and range conditions rated poor or very poor in mid-July. As cattle feeding returns deteriorated with escalating feed prices, feeder cattle prices began a sharp decline in the fall. By January 1, 2007, it is estimated that just under 27 percent of the available replacement heifers entered the herd, the smallest percentage since 2004. Coupled with higher cow slaughter, beef cow numbers on January 1, 2007 were fractionally below 2006. Likewise, the hog sector began the year with strongly positive returns. Moderate production growth, coupled with stellar exports, moderated hog price declines. However, as grain prices rose in the later part of the year, hog returns declined and producers indicated they were cautious in their expansion plans. Broiler producers on the other hand, began 2006 with exceptionally weak prices. Faced with relatively large production increases in late 2005 and early 2006, as well as slower demand growth and weakness in exports, stocks grew dramatically and wholesale broiler prices in the first part of 2006 averaged 14 percent below year earlier. However, the sector cut back on hatchery production, and broiler production in the second half of 2006 was below year earlier. Prices responded by rising from their mid-year lows and returns improved.

As 2007 unfolds, the livestock sector may find itself on a tipping point with grain price impacts a major uncertainty. Continued strength in demand for corn for ethanol production as well as feed and export demand is expected push corn prices higher. Soybean meal prices are expected to rise but not to the same extent as corn. Some relief from higher feed prices may be found from inclusion of ethanol byproducts (distillers dry grains or DDGs) in animal rations but monogastric swine and poultry will be less able to capture the benefits of increased DDG availability. Due to biological lags, much of this year's meat production is the result of actions taken by producers last year. Led by gains in pork production, it is forecast that total red meat and poultry production in 2007 will increase about 2 percent to just under 91 billion pounds. Economic growth is expected to remain relatively strong, encouraging domestic consumption while a relatively strong world economy should help support export growth. However, the impacts of disease

discoveries on foreign demand or changes in trade rules continue to have the capacity to disrupt trade flows.

### **Cattle Inventory Little Changed**

The U.S. cattle inventory showed little expansion in 2006 with growth in 2005 scaled back from previous estimates. The January 1, 2007 *Cattle* report estimated that the number of cattle and calves on farms at the beginning of the year was 97.0 million head. This was only 300,000 head, or less than one-half percent higher than the downward-revised 2006 estimate. Despite a promising start to the year, forage conditions deteriorated and cow-calf operators struggled with poor pasture conditions and tight supplies of hay. As some producers found themselves without sufficient forage to support their herds, more cows were sent to slaughter and fewer heifers were retained for breeding. The beef cow herd declined fractionally to 32.9 million head and producers indicated that the number of retained beef heifers for breeding was slightly below 2006. The 2006 calf crop was 37.57 million head, fractionally below 2005. Expansion of the cattle herd in the coming year will depend to a large extent on an improvement in forage conditions and adequate supplies of hay for supplemental feeding. Cow slaughter jumped dramatically in the fourth quarter of 2006 and remains high in early 2007. Cow slaughter is expected to moderate in the coming months but any heifers retained from this year's calf crop will not calve before 2009. Thus, cow inventories are expected to remain relatively stable during 2007.

In addition to poor forage conditions and higher prices for hay, cow-calf producer returns were depressed by sharp declines in feeder calf prices. After peaking at almost \$118 per cwt in September 2006 (\$5 per cwt above 2006), prices declined sharply as cattle feeders responded to increased feed prices. In January 2007 feeder steers averaged about \$97 per cwt, about \$14 below last year's record January price. Prices for 2007 are forecast to average near \$100, down from \$107.32 in 2006. With adequate pasture, higher corn prices are likely to narrow the spread between lighter weight and heavier weight calves as cattle feeders attempt to offset feed cost increases. It is expected that cattle will remain on grass longer and enter feedlots at heavier weights.

Despite a slightly smaller calf crop in 2006, there was about 1 percent more cattle outside feedlots on January 1, 2007 with 24 percent more cattle reported on small grains pasture in the 3 reporting states (Kansas, Oklahoma, and Texas). Cattle placements during 2007 are likely to reflect the larger supply of available cattle but with adequate forage and higher placement weights, cattle placements are not expected to reflect the bunching pattern exhibited last year when drought forced cattle off grass early. Fed cattle marketings from U.S. feedlots during 2007 are expected to average about 5 percent higher than 2006. Feedlot inventories built during 2006 with a large number of cattle remaining on feed longer, but this backlog is expected to clear during the first quarter. Second half marketings should reflect a more normal pattern of placement and a shorter time on feed. Although steer and heifer slaughter will reflect higher feedlot marketings, steady imports of slaughter cattle from Canada, reduced cow slaughter and only modest

gains in weights will moderate the increase in beef production. This forecast assumes that the current restrictions on imports of cattle over 30 months of age from Canada remain in place. Commercial beef production is forecast to increase 2-3 percent to 26.6 billion pounds in 2007.

Choice Nebraska steer prices averaged \$85.41 per cwt in 2006 and are expected to average \$83-\$88 per cwt in 2007. Prices thus far this year have been exceptionally strong, partly due to concerns about winter weather and a relatively slow pace of marketings. However, prices are expected to decline as fed cattle marketings increase. Retail prices are forecast to average in the mid \$3.90's per pound for 2007, down slightly from 2006's \$3.97 per pound.

U.S. beef exports increased dramatically in 2006 but growth remains hampered by import restrictions imposed by our former largest export markets, Japan and South Korea. Although both markets are technically open, exports to those markets are expected to grow only slowly. U.S. exports to Japan are limited to cattle under 20 months of age and with cattle expected to remain on grass longer during 2007, the number of age-qualifying cattle which will reach desired grades for exports may be further limited. U.S. beef exports to South Korea are hampered by South Korea's zero tolerance for bone chips and concerns about rejection of U.S. shipments. Although the United States and South Korea continue to discuss rules on bone chip tolerance, beef exports will be limited by concerns about product rejection. However, exports to other markets are expected to grow aided by prospects for good world economic growth. Beef exports in 2007 are forecast at 1.44 billion pounds, up 25 percent from 2006 but well below the 2.5 billion pounds exported prior to the discovery of BSE in late 2003.

U.S. beef imports are forecast at 3.28 billion pounds in 2007, up almost 7 percent from 2006. Beef imports in 2006 were lower from most major import sources. Relatively high cow slaughter reduced the need for imported processing beef and many of our major sources of beef concentrated on other markets. In addition to strong demand in Asia, Australia was able to expand exports to Russia following the discovery of foot-and-mouth disease in Brazil. Uruguay also expanded exports into markets such as Russia, Chile, and South Africa which had been serviced by Brazil. However, with the resumption exports by Brazil to many of its markets, U.S. imports of beef from Uruguay have been increasing again after declining last spring. Lower cow slaughter in 2007 is also expected to support increased imports. This forecast assumes that the portion of Minimum Risk Rule permitting the importation of beef from cattle over 30 months old from Canada will be held in abeyance until publication of the final rule on importation of cattle over 30-months of age.

### **Pork Production Sets New Record**

Returns for U.S. hog producers have been positive for almost 3 years and inventories have been building slowly but steadily. On December 1, 2006 the inventory of all hogs and pigs was about 62.1 million head, about 1 percent higher than 2005 and 4 percent

higher than the low of the current cycle in December 2002. Much of the expansion has been driven by productivity gains as measured by increased pigs per litter. The breeding herd remains relatively stable at 6.1 million head, about 77,000 head above December 2005 and 30,000 more than December 2002 but the number of pigs per litter in September-November 2006 averaged 9.13 compared to 9.03 in 2005 and 8.93 in 2003. Producers indicated in the December report that they intend to farrow about 1 percent more sows during December-May 2007 compared to last year. Producers are expected to scale back second half farrowing growth in response to weaker returns but continued growth in pigs per litter will continue to support a 2007 pig crop which is 1-2 percent higher than 2006.

Hog slaughter in 2007 will reflect increased U.S. domestic hog supplies and also expected larger imports of hogs from Canada. Hog imports in 2006 reached 8.7 million head with more than two-thirds of imports represented by hogs under 110 pounds. The Canadian hog inventory on January 1, 2007 was slightly smaller as was the breeding herd and producers reported intentions to farrow about the same number of sows in the first half of 2007. Despite these indications of little change in Canadian hog numbers, restructuring in the Canadian slaughter sector and relatively favorable exchange rates are expected to result in 9.0 million head being imported in 2007. U.S. commercial hog slaughter will reach 107.9 million head. Weight gains are about the same as last year as higher corn prices encourage producers to market hogs as quickly as possible. In 2007, commercial pork production is forecast at a record 21.7 billion pounds, up from 2006's record of 21 billion pounds.

In 2006, hog prices, on a national base, 51%-52% lean, live equivalent, averaged \$47.26 per cwt, down more than 5 percent from 2005. Prices in 2007 are forecast to average \$42-\$46 as large supplies of pork and beef pressure prices. Retail pork prices are expected to decline as well, as pork competes for the consumer's dollar. Retail prices are forecast to be in the mid \$2.70's per pound range for 2007, down from \$2.81 last year.

Pork exports have exhibited stellar growth, increasing at double digit rates over the past 3 years. Exports in 2006 declined to Japan but increased to most other destinations, particularly Russia, South Korea, and Mexico. Growth is expected to continue into 2007 reaching about 3.2 billion pounds, 5 percent above 2006, supported by higher production and lower prices. Pork imports declined more than 3 percent in 2006 and are expected to rise 2 percent in 2007.

### **Sheep and Lamb Inventory Falls**

In 2006, the inventory of all sheep and lambs reversed direction and declined after 2 years of increases. On January 1, 2007 the inventory of sheep and lambs was 6.19 million head, down 1 percent from 2005. Although drought conditions likely resulted in a liquidation of breeding sheep in Texas and New Mexico, breeding sheep inventories increased in most other major sheep producing regions. As a result, the breeding sheep inventory was only fractionally below 2006. In 2007, commercial production of lamb

and mutton is projected at 182 million pounds, down more than 1 percent from 2006. A smaller lamb crop in 2006 has resulted in a smaller pool of animals and improved pastures should result in increased retention for breeding.

In 2007, lamb and mutton imports are expected to be 194 million pounds, about 2 percent higher than in 2006. Imports in 2006 were 190 million pounds, up 6 percent from 2005, and in 2006, imports exceeded commercial production for the first time.

Slaughter lamb prices in 2006 averaged \$77.31 per cwt, 21 percent lower than the previous year. The price decline was in part due to higher production and an abundance of over-finished lambs in the first half of the year. As supplies of U.S. lamb are expected to be tighter, lamb prices are forecast higher. The 2007 San Angelo lamb price is forecast to average \$83-\$88 per cwt.

### **Broiler Sector Retrenches**

Broiler production is forecast to increase less than 1 percent to 36.0 billion pounds in 2007. This will be the slowest rate of production growth since 1975. After annual growth near 4 percent in 2004 and 2005, the broiler sector faced an oversupply situation in late 2005 and early 2006. Stocks built and prices declined as exports and domestic demand slowed. The sector began to rein in production in 2006, reducing egg sets and chick placements late in the first quarter. Although production growth in the first quarter of 2006 increased about 4 percent, production growth slowed in the second quarter and as gains in broiler weights moderated in the second half of the year, production declined from year earlier levels. Based on hatchery data, it is expected that 2007 production will be below 2006 into the second quarter. Returns have improved from early 2006 but broiler price strength from lower supplies may be at least partly offset by higher feed prices. Thus, second half production is expected to increase in response to higher broiler prices although gains will be moderated by increased feed prices.

The 12-city wholesale broiler price is forecast to average 69 to 73 cents per pound in 2007, up from 64.4 cents in 2006. Supplies will be tighter in 2007 due to lower production in the first half of the year and expectations of modest growth in exports. Broiler parts prices have been rising reflecting tightening supplies. Leg quarter prices through late February averaged about 36 cents per pound compared to 24 cents for the same period in 2006 and boneless/skinless breast meat averaged \$1.34 per pound compared to \$1.01. However, price gains later in the year will likely be moderated by increasing production and competition with declining pork prices.

U.S. broiler meat exports are forecast to increase almost 3 percent to 5.4 billion pounds in 2007 after an increase of about 1 percent in 2006. Trade recovered early in 2006 as concerns about Avian Influenza (AI) outbreaks that had dampened the demand for broilers in markets in parts of Asia and Eastern Europe faded. However, trade with Russia, the largest market for U.S. broiler exports, was variable as importers responded to rising leg quarter prices and demands by the domestic industry to decrease reliance on

imports. Exports to Eastern Europe were also significantly weaker as concerns about AI limited sales early in the year and Romania adopted EU import policies ahead of joining the EU. However, part of the decline was offset as broiler exports to markets such as South Korea and the Baltic States advanced, and shipments to China were especially strong at 2.5 times larger than the previous year. In the absence of trade disruptions, exports in 2007 should be driven by strengthening demand in major countries.

### **Turkey Production To Be Record High in 2007**

Turkey production in 2007 is forecast to increase almost 2 percent to a record 5.78 billion pounds. This will eclipse the previous record of 5.71 billion pounds set in 2002. Turkey output in 2006 was about 3 percent higher than the previous year. Producers likely responded to 3 years of increasing turkey prices, and will increase production further for much of this year on the heels of record high prices in 2006. Hatchery set and placement data has been positive for over a year. Bird slaughter was generally higher for most of 2006 but second-half weight gains lagged those in the first half. Hatchery data for January points to continued increases in sets and placements. However, higher corn prices may continue to limit weight gains and will pressure producer returns. With increased production, Eastern Region hen prices are forecast to fall from the 2006 record and average 73 to 77 cents per pound.

Turkey exports declined 4 percent in 2006, primarily on sharply lower first half exports. Exports to Mexico were lower as imports of broiler meat for processing increased. Turkey exports are forecast to rise 7 percent to 585 million pounds in 2007. Shipments to Mexico may recover as broiler prices increase and turkey prices are forecast to decline.

### **Egg Production Up Slightly**

U.S. total egg production is forecast to increase less than 1 percent in 2007. First-half production is forecast lower as growth in the table egg flock is slowing and reduced broiler production in the first half will result in lower hatching egg production. However, second half production is expected to increase in response to higher egg prices. For the year, table egg production is expected to up less than 1 percent, and hatching egg production fractionally higher than in 2006. Egg exports were 202.1 million dozen in 2006, and in 2007 egg exports are forecast at 223 million dozen. Wholesale egg prices in 2006 were 71.8 cents per dozen. Although prices are expected to drop from their current high levels, prices for 2007 are forecast to average between 84 to 90 cents as higher feed prices limit production gains and exports are expected to be firm.

Additional information about the 2007 livestock and poultry forecasts are available at:

World Agricultural Supply and Demand Estimates  
[www.usda.gov/oce/commodity/wasde/index.htm](http://www.usda.gov/oce/commodity/wasde/index.htm)

Livestock, Dairy, and Poultry Situation and Outlook  
[www.ers.usda.gov/publications/ldp/](http://www.ers.usda.gov/publications/ldp/)

Livestock and Poultry: World Markets and Trade  
[www.fas.usda.gov/dlp/livestock\\_poultry.asp](http://www.fas.usda.gov/dlp/livestock_poultry.asp)